

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 SS-15 NSC-05

AGRE-00 /077 W

-----110734Z 001029 /21

R 110500Z JAN 77

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 6505

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E.O. 11652: N/A

TAGS: EFIN, EAID, CE

SUBJECT: SRI LANKA BALANCE OF PAYMENTS: REVISED PROJECTIONS FOR  
1976 AND 1977

REF: 76 COLOMBO 3626, (B) 76 COLOMBO 4044, (C) 76 COLOMBO 540

1. SUMMARY: DECEMBER PROJECTION OF 1976 BALANCE OF PAYMENTS  
SHOWS SURPRISING SURPLUS OF \$31 MILLION DUE TO CONSIDERABLE  
DROP IN IMPORTS. FOREIGN EXCHANGE BUDGET FOR 1977 CALLS FOR  
MODEST INCREASE IN EXPORT EARNINGS, RAPID RISE IN IMPORTS,  
INCREASE IN GRANTS AND NET AID LOANS WHICH MORE THAN OFF-  
SETS FALL IN CREDITS AND IMF BORROWING, AND FOREIGN EXCHANGE  
GAP OF \$50.1 MILLION. END SUMMARY.

2. TABLE BELOW SHOWS CENTRAL BANK PROVISIONAL BALANCE OF  
PAYMENTS DATA FOR 1975 AS REPORTED REFTEL A AND PROJECTIONS  
FOR 1976 AND 1977 AS REVISED BY EXTERNAL RESOURCES DIVISION  
(ERD) AT END OF YEAR. AS EXPLAINED REFTEL C, PROJECTIONS  
SHOULD BE STRICTLY PROTECTED. DATA ARRANGED TO CONFORM AS  
CLOSELY AS POSSIBLE TO IMF METHOD OF TABULATION. ORIGINAL  
FIGURES IN SRI LANKA RUPEES CONVERTED TO US DOLLARS AT  
FOLLOWING AVERAGE PER DOLLAR OFFICIAL EXCHANGE RATES:

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1975, RS. 7.0194; 1976, RS. 8.4282; AND 1977, RS. 8.70

(RATE USED BY ERD IN REVISING PROJECTIONS, CURRENT  
RATE IS RS. 8.8639). LINE ITEMS MAY NOT ADD TO TOTALS

SRI LANKA BALANCE OF PAYMENTS

PROVISIONAL 1975--PROJECTIONS 1976 AND 1977 AS OF DEC. 1976

(US\$ MILLIONS)

	PROVISIONAL 1975	PROJECTED 1976	PROJECTED 1977
(A) EXPORTS (FOB)		557.5	556.9 591.5
A) TEA	(275.2)	(234.2)	(247.1)
B) RUBBER	(98.0)	(113.9)	(128.3)
C) COCONUT	(70.7)	(47.5)	(34.5)
D) PETROLEUM PRODUCTS		(55.3)	(50.4) (60.3)
E) OTHER	(58.3)	(111.0)	(121.3)
(B) IMPORTS (CIF)	-759.9	-661.5	-791.4
A) FOOD GRAINS	(-313.1)	(-208.9)	(-22.2)
B) CRUDE AND REFINED PETROLEUM	(-121.2)	(-141.5)	(-149.6)
C) OTHER	(-325.6)	(-311.1)	(419.6)
(C) TRADE BALANCE (A PLUS B)	-202.4	-104.6	-199.9
(D) NET INVISIBLES	92.4	43.0	55.1
OF WHICH: OFFICIAL GRANTS	(77.1)	(30.5)	(42.5)
(E) CURRENT ACCOUNT BALANCE (C PLUS D)	-110.0	-61.6	-144.8
(F) AID RECEIPTS (NET)	94.9	103.3	134.3
OF WHICH: AMORTIZATION	(-29.3)	(-32.7)	(-29.4)
(G) CREDITS(NET)	-22.5	-19.5	-23.5
OF WHICH: AMORTIZATION	(-179.4)	(-177.6)	(-113.4)
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(H) IMF BORROWING(NET)	29.8	8.8	-16.1
OF WHICH: REPAYMENTS	(-22.8)	(-23.9)	(-16.1)
(I) INTERNATIONAL RESERVES	7.8	-31.0	-
(J) ESTIMATED F/X RGAP (E PLUS F PLUS G PLUS H)	-	-	50.1

3. 1976. WHILE 1976 EXPORT VOLUMES OF TEA, RUBBER, COCONUTS, AND REFINED PETROLEUM PRODUCTS ALL EXPECTED TO BE LESS THAN PREVIOUS YEAR, HIGH RUBBER PRICES AND MARKED INCREASE IN NON-TRADITIONAL EXPORTS WILL MAINTAIN TOTAL EXPORT EARNINGS AT ABOUT SAME LEVEL AS 1975. COMPARED WITH 1975, INCOME FROM TEA EXPORTS WILL DECLINE 14.9 PERCENT IN 1976 DUE TO DROP IN EXPORT VOLUME FROM 41 MILLION POUNDS TO ANTICIPATED 420 MILLION POUNDS AND TO LOWER WORLD PRICES(IN DOL R TERMS). ERD EXPECTS RUBBER EXPORTS TO DECLINE FROM 354.2 MILLION POUNDS TO 320 MILLION POUNDS, BUT HIGHER PRICES WILL RAISE TOTAL EXPORT REVENUES BY 1.2 PERCENT. IN NUT EQUIVALENT,

TOTAL VOLUME OF COPRA, COCONUT OIL, AND DESICCATED COCONUT EXPORTS PROJECTED TO FALL FROM 845.8 MILLION NUTS TO 800 MILLION NUTS WHICH COMBINED WITH LOWER WORLD PRICES WILL REDUCE COCONUT EXPORT EARNINGS BY 32.8 PERCENT. MARGINAL REDUCTION IN EARNINGS FROM REFINED PETROLEUM PRODUCTS RESULTED FROM DIVERSION OF REFINED PRODUCTION FROM EXPORTS TO LOCAL CONSUMPTION. IN GENERAL, NON-TRADITIONAL EXPORTS HAVE DONE VERY WELL, AND EARNINGS ARE EXPECTED TO INCREASE OVER 90 PERCENT IN 1976 WITH GEMS, SHELLFISH, CERAMICS, CLOTHING, AND TOBACCO PRODUCTS REGISTERING BIGGEST GAINS.

4. VALUE OF IMPORTS DURING 1976 NOW PROJECTED AT 12.9 PERCENT BELOW 1975 DUE TO A MARKED DROP IN VALUE OF FOOD GRAIN IMPORTS AND A SMALLER REDUCTION IN "OTHER" IMPORTS. WHILE VOLUME OF RICE AND WHEAT/WHEAT FLOUR IS EXPECTED TO BE ONLY SLIGHTLY LESS THAN 1975, SHARP DROP IN WORLD PRICES REDUCED FOOD GRAIN IMPORT COSTS LIMITED OFFICIAL USE

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BY ONE-THIRD. PETROLEUM IMPORTS UP BECAUSE OF HIGHER PRICES AND UNEXPECTED NEED TO IMPORT \$4.2 MILLION OF KEROSENE IN LAST QUARTER OF 1976 TO SUPPLEMENT DOMESTIC REFINERY PRODUCTION. SITUATION IN "OTHER" IMPORTS DISCUSSED BELOW.

5. REDUCTION IN IMPORTS RESULTED IN 1975 TRADE DECICIT ABOUT HALF AS LARGE AS PREVIOUS YEAR. ALTHOUGH SURPLUS ON INVISIBLE TRANSACTIONS SMALLER IN 1976 DUE TO REDUCED LEVEL OF GRANT AID, CURRENT ACCOUNT DEFICIT STILL WELL BELOW 1975. SOMEWHAT HIGHER LEVEL OF COMMODITY AND PROJECT AID RECEIPTS PARTIALLY OFFSET LOWER IMB BORROWING AND, MUCH TO EVERYONE'S SURPRISE, SRI LANKA IS NOW EXPECTED TO FINISH 1976 WITH AN OVERALL BALANCE OF PAYMENTXISURPLUS OF \$31 MILLION.

6. IT IS INTERESTING TO NOTE DIFFERENCES BETWEEN ERD'S SEPTEMBER PROJECTION REPORTED REFTEL A AND CURRENT ESTIMATES FOR 1976. IMPROVED TEA AND RUBBER PRICES AND HIGHER VOLUME OF NON-TRADITIONAL EXPORTS EXPLAINS SIGNIFICANT UPWARD REVISION OF EXPORT PROJECTIONS. BIGGEST CHANGE, HOWEVER, IS SHARP REDUCTION IN PROJECTED IMPORT TOTAL. WHILE ESTIMATED IMPORTS OF FOOD GRAINS AND PETROLEUM INCREASED MODESTLY, CURRENT PROJECTION OF "OTHERAT IMPORTS 20 PERCENT LOWER THAN SEPTEMBER ESTIMATE. AS MENTIONED REFTEL B, GSL'S INCREASING USE OF PRICE CONTROLS APPEARS TO BE ACTING AS DISINCENTIVE TO INDUSTRIAL PRODUCTION WHICH HAS REDUCED DEMAND FOR A VARIETY OF IMPORTED CAPITAL GOODS, RAW MATERIALS, AND FINISHED PRODUCTS. FURTHERMORE, PERIODIC GSL TAKEOVERS OF PRIVATE FIRMS, GENERALLY SLOW GROWTH OF

ECONOMY, AND CONCERN ABOUT ELECTIONS SCHEDULED FOR 1977  
HAVE COMBINED TO MAKE BUSINESSMEN VERY CAUTIOUS. AT  
TIME OF SEPTEMBER PROJECTIONS, ERD ANTICIPATED UNDER  
UTILIZATION OF FOREIGN EXCHANGE ALLOCATIONS WAS  
TEMPORARY PHENOMENON AND LAST QUARTER OF 1976 WOULD SEE  
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HIGHER RATE OF IMPORTS. IMPORTS, HOWEVER, HAVE CONTINUED  
TO RUN BELOW EXPECTATIONS AND ERD HAS DRASTICALLY REDUCED  
ITS PROJECTION FOR 1976. UPWARD REVISION OF IMB BORROW-  
ING REFLECTS SDR 15.8 MILLION IN COMPENSATORY  
FINANCING AT END OF YEAR.

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 SS-15 NSC-05  
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7. 1977. DECEMBER PROJECTIONS FOR 1977 REPRESENT  
FOREIGN EXCHANGE BUDGET IN WHICH SRI LANKA'S ESTIMATED  
ESSENTIAL IMPORT NEEDS ARE COMPARED WITH EXPECTATIONS  
OF EXPORT PROCEEDS, TRADE CREDITS, AND AID RECEIPTS.  
RESULTING FOREIGN EXCHANGE GAP OF \$50.1 MILLION AT BE-  
GINNING OF THIS YEAR IS AMOUNT OF ADDITIONAL FINANCING  
NEEDED TO PREVENT DOWNWARD ADJUSTMENT OF FOREIGN EX-  
CHANGE ALLOCATIONS.

8. IN COMPARISON WITH MOST RECENT 1976 ESTIMATES,  
FOREIGN EXCHANGE BUDGET FOR 1977 ENVISIONS 6.2 PERCENT  
INCREASE IN EXPORT EARNINGS. ERD ANTICIPATES MODEST

INCREASES IN TEA EXPORT VOLUME (FROM 420 TO 430 MILLION POUNDS) AND PRICES. VOLUME OF RUBBER EXPORTS TO RISE FROM 320 TO 360 MILLION POUNDS WITH STABLE WORLD PRICES. COCONUT, WHICH HAS BEEN HARD HIT BY DROUGHT, INSUFFICIENT USE OF FERTILIZER, INADEQUATE REPLANTING, AND GENERAL NEGLECT IN LARGE PLANTATIONS IN ANTICIPATION OF GSL TAKEOVER IN 1975, IS PRESENTLY DECLINING INDUSTRY AND EXPORT VOLUME IS PROJECTED TO FALL AGAIN FROM EQUIVALENT OF 800 MILLION NUTS IN 1976 TO 600 MILLION NUTS IN 1977. (HIGHER EARNINGS FROM EXPORTS OF REFINED PETROLEUM PRODUCTS DUE LARGELY TO EXPECTED INCREASE IN WORLD PRICES FOLLOWING DECEMBER LIMITED OFFICIAL USE

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OPEC MEETING.) NON-TRADITIONAL EXPORTS ARE EXPECTED TO CONTINUE IMPROVING BUT AT SLOWER RATE THAN EXPERIENCED IN 1976.

9. IN ANTICIPATION THAT IMPORTS NOT REALIZED IN LATTER PART OF 1976 WILL OCCUR IN 1977, ERD PROJECTING 19.6 PERCENT RISE IN IMPORTS THIS YEAR, WITH "OTHER" CATEGORY SHOWING LARGEST INCREASE. COST OF FOOD GRAIN IMPORTS EXPECTED TO RISE 6.4 PERCENT DUE ENTIRELY TO UPSURGE IN WHEAT FLOUR CONSUMPTION. ALTHOUGH OVERAGE WHEAT AND WHEAT FLOUR PRICES IN 1977 ARE EXPECTED TO BE CONSIDERABLY LOWER THAN 1976, VOLUME OF 1977 WHEAT GRAIN IMPORTS PROJECTED AT 143,500 METRIC TONS, UP 10.2 PERCENT, AND FLOUR AT 564,000 MT (INCLUDING 200,000 MT UNDER PL 480), AN INCREASE OF 42.1 PERCENT OVER 1976. AS GSL EXPECTING RECORD RICE HARVEST THIS YEAR (SEE 76 COLOMBO 4378), PROJECTED RICE IMPORTS DOWN FROM 444,400 MT TO 382,000 MT (INCLUDING 20,000 MT UNDER PL 480) WITH AVERAGE IMPORT PRICES UNCHANGED. (SEPTEL ON 1976 AND 1977 SUPPLY AND DISTRIBUTION OF RICE AND WHEAT FLOUR IN PREPARATION.) CRUDE PETROLEUM IMPORTS IN 1977 PROJECTED AT 10.5 MILLION BARRELS, WHICH IS ABOUT SAME AS 1976, BUT REFINED IMPORTS EXPECTED TO BE SOMEWHAT LOWER THIS YEAR. IN PROJECTING PETROLEUM IMPORT COSTS, ERD ASSUMED 10 PERCENT INCREASE IN OPEC PRICES, EVEN THOUGH SRI LANKA OBTAINS ABOUT TWO-THIRDS OF ITS CRUDE REQUIREMENTS FROM SAUDI ARABIA. SHARP INCREASE IN "OTHER" IMPORTS REFLECTS NOT ONLY ERD EXPECTATION THAT FOREIGN EXCHANGE ALLOCATION UNUSED IN 1976 WILL BE UTILIZED IN 1977, BUT ALSO MARKED INCREASES IN IMPORTS FOR TEXTILE SECTOR (SEE 76 COLOMBO 4681) AND OF FERTILIZER AND AGRICULTURAL EQUIPMENT TO MAXIMIZE RICE HARVEST (76 COLOMBO 4378).

10. DUE HIGH LEVEL OF IMPORTS, PROJECTED TRADE DEFICIT FOR 1977 ALMOST SAME LEVEL AS RECORD HIGH OF LIMITED OFFICIAL USE

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1975. CONFORMING TO FLUCTUATIONS OF OFFICIAL GRANTS,  
NET INVISIBLES SURPLUS IN 1977 EXPECTED TO BE HIGHER  
THAN 1976 BUT STILL BELOW 1975 WHICH LEAVES RECORD HIGH  
CURRENT ACCOUNT DEFICIT FOR 1977. AID RECEIPTS  
SIGNIFICANTLY HIGHER IN 1977, DUE PRIMARILY TO \$23  
MILLION UREA FERTILIZER CONSORTIUM PROJECT LOAN FROM  
INDIA, WEST GERMANY, AND ASIAN DEVELOPMENT BANK, WHICH  
MORE THAN OFFSETS DROP IN CREDITS AND NO IMF BORROWING  
IN 1977 TO LEAVE ESTIMATED FOREIGN EXCHANGE GAP OF  
\$50.1 MILLION. THIS GAP IS RELATIVELY MODEST IN COMPARI-  
SON WITH FOREIGN EXCHANGE BUDGETS AT BEGINNING OF PAST  
COUPLE OF YEARS.  
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## Message Attributes

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**TAGS:** EFIN, EAID, CE  
**To:** STATE  
**Type:** TE  
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